

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN
AND FAMILY SERVICES

Financial Audit

For the Year Ended June 30, 2005

Performed as Special Assistant Auditors for
The Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

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A compliance examination report for the year ended June 30, 2005, has been issued under separate cover.

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services was performed by Sleeper, Disbrow, Morrison, Tarro & Lively, LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Department's basic financial statements.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of and for the year ended June 30, 2005, which collectively comprise the Department of Children and Family Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Children and Family Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the State of Illinois, Department of Children and Family Services are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Children and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2005, on our consideration of the State of Illinois, Department of Children and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Children and Family Services has not presented a management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Children and Family Services' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and department management, and is not intended to be and should not be used by anyone other than these specified parties.

S. Leiper, Disbrow, Morrison, Tano & Lively LLC

November 21, 2005

State of Illinois
Department of Children and Family Services
Statement of Net Assets and Governmental Funds Balance Sheet
 June 30, 2005 (Expressed in Thousands)

	General Fund 0001	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
ASSETS					
Unexpended appropriations	\$ 46,437	-	\$ 46,437	-	\$ 46,437
Cash equity with State Treasurer	-	17,621	17,621	-	17,621
Cash and cash equivalents	1,083	189	1,272	-	1,272
Due from other government - federal	-	156,796	156,796	-	156,796
Other receivables	420	44	464	-	464
Due from other Department funds	2	-	2	(2)	-
Due from other State funds	6	21	27	-	27
Prepaid expenses	-	-	-	1,504	1,504
Capital assets being depreciated, net	-	-	-	491	491
Total assets	\$ 47,948	\$ 174,671	\$ 222,619	1,993	224,612
LIABILITIES					
Accounts payable and accrued liabilities	\$ 35,950	\$ 42,229	\$ 78,179	-	78,179
Intergovernmental payables	1,757	865	2,622	-	2,622
Due to other State fiduciary funds	1,356	33	1,389	-	1,389
Due to other Department funds	-	2	2	(2)	-
Due to other State funds	6,118	1,502	7,620	-	7,620
Due to State of Illinois component units	2,006	1,272	3,278	-	3,278
Unavailable revenue	-	83,858	83,858	(83,858)	-
Deferred revenue	-	178	178	-	178
Long-term obligations:					
Due within one year	-	-	-	1,650	1,650
Due subsequent to one year	-	-	-	19,872	19,872
Total liabilities	47,187	129,939	177,126	(62,338)	114,788
FUND BALANCES/NET ASSETS					
Reserved for encumbrances	-	861	861	(861)	-
Unreserved:					
General fund	761	-	761	(761)	-
Special revenue funds	-	43,871	43,871	(43,871)	-
Invested in capital assets, net of related debt	-	-	-	414	414
Unrestricted net assets	-	-	-	109,410	109,410
Total fund balances/net assets	761	44,732	45,493	64,331	109,824
Total liabilities and fund balances	\$ 47,948	\$ 174,671	\$ 222,619	\$ 64,331	\$ 109,824

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Children and Family Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2005
(Expressed in Thousands)

Total fund balances-governmental funds	\$	45,493
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Prepaid expenses for governmental activities are current uses of financial resources for funds		1,504
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		491
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		83,858
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:		
Compensated absences	(21,445)	
Capital lease obligations	(77)	
	(21,522)	(21,522)
Net assets of governmental activities	\$	109,824

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Children and Family Services
Statement of Activities and Governmental Revenues,
Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2005 (Expressed in Thousands)

	General Fund 0001	Other Non- major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 748,836	\$ 483,105	\$ 1,231,941	\$ (1,084)	\$ 1,230,857
Debt service - principal	73	-	73	(73)	-
Debt service - interest	15	-	15	-	15
Capital outlays	99	-	99	(99)	-
Total expenditures/expenses	749,023	483,105	1,232,128	(1,256)	1,230,872
Program revenues:					
Charges for services:					
Licenses and fees	327	-	327	-	327
Other	12,977	1,991	14,968	-	14,968
Total charges for services	13,304	1,991	15,295	-	15,295
Operating grant revenue:					
Federal	-	480,605	480,605	(41,007)	439,598
Other	-	123	123	-	123
Total operating grant revenue	-	480,728	480,728	(41,007)	439,721
Net program revenues (expense)	(735,719)	(386)	(736,105)	(39,751)	(775,856)
General revenues:					
Interest and investment income	-	11	11	-	11
Other	150	44	194	-	194
Total general revenues	150	55	205	-	205
Other sources (uses):					
Appropriations from State resources	758,957	-	758,957	-	758,957
Lapsed appropriations	(5,200)	-	(5,200)	-	(5,200)
Receipts collected and transmitted to State Treasury	(14,089)	-	(14,089)	-	(14,089)
Capital transfers to other State agencies	-	-	-	(1,069)	(1,069)
Transfers-in	-	230	230	-	230
Transfers-out	(4,929)	(14,093)	(19,022)	-	(19,022)
Capital lease financing	29	-	29	(29)	-
Total other sources (uses)	734,768	(13,863)	720,905	(1,098)	719,807
Change in fund balance/net assets	(801)	(14,194)	(14,995)	(40,849)	(55,844)
Fund balance/net assets, July 1, 2004	1,562	58,926	60,488	-	165,668
Fund balance/net assets, June 30, 2005	761	44,732	45,493	-	109,824

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Children and Family Services
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2005
(Expressed in Thousands)

Net change in fund balances	\$ (14,995)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures while the statement of activities reports depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation in the current period exceeded capital outlays.</p>	(346)
<p>Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing but in the Statement of Net Assets the lease obligation is reported as a liability.</p>	(29)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>	73
<p>Some capital assets were transferred out to other State agencies and, therefore, no proceeds were received for the capital asset's value.</p>	(1,069)
<p>Prepaid expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	1,296
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the decrease in unavailable revenue over the prior year.</p>	(41,007)
<p>Some expenditures reported in governmental funds decrease the amount of certain long-term liabilities reported on the Statement of Net Assets and are therefore not reported as expenses in the Statement of Activities. Below are such activities.</p>	
Decrease in compensated absences obligation	233
Change in net assets of governmental activities	\$ (55,844)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Children and Family Services

Statement of Fiduciary Net Assets

June 30, 2005 (Expressed in Thousands)

	Private Purpose Trust Funds	Agency Fund Children's Trust Fund 1122
ASSETS		
Cash equity with State Treasurer	\$ -	\$ 116
Cash and cash equivalents	21	3,005
Investments	323	-
Due from other government - federal	-	250
Total assets	<u>344</u>	<u>\$ 3,371</u>
LIABILITIES		
Due to other government - federal	-	55
Other liabilities	-	3,316
Total liabilities	<u>-</u>	<u>\$ 3,371</u>
NET ASSETS		
Held in trust for:		
Individuals, organizations, and other governments	344	
Total net assets	<u>\$ 344</u>	

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Children and Family Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2005 (Expressed in Thousands)

	<u>Private Purpose Trust</u>
Additions:	
Investment earnings:	
Interest, dividends and other investment income	\$ 18
Deductions:	
General and administration	3
Change in net assets	15
Net assets, July 1, 2004	329
Net assets, June 30, 2005	\$ 344

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

(1) Organization

The Department of Children and Family Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Bail Bonds Fund, the Children and Family Benefit Fund, the General Purpose Fund, and the Family Reunification Fund.

The Department is organized to provide for social services to children and their families in the State through grants and purchase-of-service arrangements with local service agencies. The mission of the Department is to:

- Protect children who are reported to be abused or neglected and to increase their families' capability to safely care for them;
- Provide for the well-being of children in our care;
- Provide appropriate, permanent families as quickly as possible for those children who cannot safely return home;
- Support early intervention and child abuse prevention activities; and
- Work in partnerships with communities to fulfill this mission.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Children and Family Services, are intended to present the financial position and the changes in financial position of only the portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Comprehensive Annual Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The statement of net assets presents the assets and liabilities of the Department's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the health and social services function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with the health and social services function. Program revenues include (a) charges paid by the recipients of goods or services offered by the

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Notes to Financial Statements

June 30, 2005

programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds - see note 2(d)) of the State:

General - This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

The Department also administers the following fund types:

Governmental Funds:

Special Revenue - These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, fees for service, and other resources restricted as to purpose.

Fiduciary Funds:

Private Purpose Trust - These funds account for resources legally held in trust for use by the Herrick House and the Katherine Schaffner Bequest. All resources of these funds, including any earnings on invested resources, may be used to support the Herrick House and the Katherine Schaffner Bequest. There is no requirement that any portion of these resources be preserved as capital.

Agency - These funds account for transactions related to assets collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Notes to Financial Statements

June 30, 2005

receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants and donations. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, such as bonds and capital leases, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal grants and interest. All other revenue sources including licenses and fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Notes to Financial Statements

June 30, 2005

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash equivalents include cash on hand and petty cash funds.

(g) Investments

Investments are reported at fair value. The Department holds investments pursuant to statutory authority for locally-held funds.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Department also has activity with various component units of the State of Illinois for professional services received and payments of State and Federal programs.

(i) *Capital Assets*

Capital assets, which include buildings and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Buildings	\$100,000	10-60
Building Improvements	\$25,000	10-45
Equipment	\$5,000	3-25

(j) *Compensated Absences*

The liability for compensated absences reported in the government-wide statement of net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with

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Notes to Financial Statements

June 30, 2005

a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(k) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balances represent tentative State plans that are subject to change.

(l) Net Assets

In the government-wide statement of net assets, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) New Accounting Pronouncements

Effective for the year ended June 30, 2005 the State adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3 by modifying and eliminating certain risk disclosures related to deposits and investments. The statement also requires additional risk disclosures related to deposits and investments and descriptions of deposit and investment policies, if applicable, related to those risks. There was no significant impact on the Department's financial statements as a result of adopting this statement.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments maintained outside the State Treasury.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Office does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) Investments

As of June 30, 2005, the Department had the following investments outside of the State Treasury:

	<u>Fair Value (Thousands)</u>	<u>Weighted Average Maturity (Years)</u>
<i>Fiduciary Funds</i>		
Money Market Mutual Funds	\$ 7	0.066
Financial Institution Investment Pool	1,401	0.079
Open-ended Equity Mutual Funds	178	N/A
Open-ended Debt Mutual Funds	145	3.945

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Money Market Mutual Fund was rated Aaa by Moody's and AAAM by Standard & Poor's. The Financial Institution Investment Pool and the Open-ended Debt Mutual Funds were not rated.

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2005 represent amounts due from other Department and State of Illinois funds.

Fund	Due from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 2	\$ 6	Due from other Department nonmajor governmental funds for reimbursements of expenditures incurred and from other State nonmajor governmental funds for reimbursement of grant expenditures incurred.
Nonmajor governmental funds	-	21	Due from General Fund and other Department funds for reimbursement of expenditures incurred and from other State funds for reimbursement of grant expenditures incurred.
	<u>\$ 2</u>	<u>\$ 27</u>	

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

The following balances (amounts expressed in thousands) at June 30, 2005 represent amounts due to other Department and State of Illinois funds.

<u>Fond</u>	<u>Due to</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary</u>	
General	\$ -	\$ 6,118	\$ 1,356	Due to other Department nonmajor funds for reimbursement of expenditures incurred, to State internal service funds for purchases of services, and to other State funds for reimbursement of expenditures incurred.
Nonmajor governmental funds	2	1,502	33	Due to General Fund and other Department nonmajor governmental funds for reimbursement of expenditures incurred, to State internal service funds for purchases of services, and to other State funds for reimbursement of expenditures incurred.
	<u>\$ 2</u>	<u>\$ 7,620</u>	<u>\$ 1,389</u>	

**STATE OF ILLINOIS
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Notes to Financial Statements

June 30, 2005

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2005, were as follows:

<u>Fund</u>	<u>Transfers in from Other State Funds</u>	<u>Description/Purpose</u>
Nonmajor governmental funds	230	Transfers from other State funds for tax check-offs and sales of birth certificates.
	\$ 230	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2005, were as follows:

<u>Fund</u>	<u>Transfers out to Other State Funds</u>	<u>Description/Purpose</u>
General	\$ 4,929	Transfers to other State funds to fund children mental health programs.
Nonmajor governmental funds	14,093	Transfers to other State funds for budget shortfalls.
	\$ 19,022	

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

(c) Balances due to State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2005 represent amounts due to State of Illinois Component Units for reimbursement of expenses incurred.

<u>Component Unit</u>	<u>Due from</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>
Chicago State University	\$ 4	\$ 2
Governors State University	-	28
Northeastern Illinois University	-	2
Western Illinois University	9	-
Illinois State University	13	1
Northern Illinois University	-	657
Southern Illinois University	723	235
University of Illinois	1,257	347
	<u>\$ 2,006</u>	<u>\$ 1,272</u>

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

(6) Other Receivables

Other receivables at June 30, 2005, (expressed in thousands) consisted of the following:

<u>Revenue Source</u>	<u>Governmental Funds</u>	
	<u>General Fund</u>	<u>Nonmajor Funds</u>
Parental assessments	\$ 2,605	\$ -
Overpayments	2,612	-
Family to Family program	-	43
Investment and other income	-	1
Total other receivables	5,217	44
Allowance for uncollectible amounts	(4,797)	-
Other receivables, net	\$ 420	\$ 44

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2005 were a follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 21,678	\$ 22,803	\$ 23,036	\$21,445	\$ 1,607
Capital lease obligations	121	29	73	77	43
Total	\$ 21,799	\$ 22,832	\$ 23,109	\$21,522	\$ 1,650

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Notes to Financial Statements

June 30, 2005

Compensated absences will be liquidated in subsequent years by the applicable governmental funds that account for the salaries and wages of the related employees.

(b) Capital lease obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of \$139 and \$80 respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2005 are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30			
2006	\$ 43	\$ 5	\$ 48
2007	34	1	35
	<u>\$ 77</u>	<u>\$ 6</u>	<u>\$ 83</u>

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2005, the employer contribution rate was 16.107%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Notes to Financial Statements

June 30, 2005

the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(9) Post-employment Benefits

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure for the State in the Illinois Comprehensive Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by Department for annuitants and their dependents nor active employees and their dependents.

(10) Fund Deficits

The Special Purpose Fund, a nonmajor governmental fund, had a fund deficit (amounts expressed in thousands) of \$13 at June 30, 2005. This deficit will be eliminated by future recognition of earned but unavailable revenues.

(11) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. The State retains the risk of loss (i.e self insured) for these risks.

(12) Commitments and Contingencies

(a) Operating leases

The Department leases copiers and other office equipment, under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$5 thousand for the year ended June 30, 2005.

Effective September 27, 2004, leased buildings and office space agreements were transferred to the Department of Central Management Services. Lease payments subsequent to September 27,

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2005

2004, were paid from Department appropriations transferred to the Department of Central Management Services.

The following is a schedule of future minimum lease payments under operating leases (amounts expressed in thousands):

<u>Year ending June 30,</u>	<u>Amount</u>
2006	\$ 24
2007	1
	<u>\$ 25</u>

(b) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2005, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**State of Illinois
Department of Children and Family Services**

**Combining Balance Sheet -
Non-major Governmental Funds**

June 30, 2005 (Expressed in Thousands)

	Special Revenue				
	DCFS Training Fund 0094	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
ASSETS					
Cash equity with State Treasurer	\$ 313	\$ 16,390	\$ 199	\$ 128	\$ 591
Cash and cash equivalents	-	83	-	-	-
Due from other government - federal	8,223	136,518	12,055	-	-
Other receivables, net	-	-	-	43	1
Due from Department funds	-	-	-	-	-
Due from other State funds	-	-	13	-	8
Total assets	\$ 8,536	\$ 152,991	\$ 12,267	\$ 171	\$ 600
LIABILITIES					
Accounts payable and accrued liabilities	\$ 118	\$ 41,333	\$ 683	\$ 66	\$ 29
Intergovernmental payables	40	813	12	-	-
Due to other State fiduciary funds	13	10	10	-	-
Due to other Department funds	-	-	-	-	-
Due to other State funds	21	1,440	21	20	-
Due to State of Illinois component units	723	462	87	-	-
Unavailable revenue	6,301	68,782	8,732	43	-
Deferred revenue	-	-	123	55	-
Total liabilities	7,216	112,840	9,668	184	29
FUND BALANCES (DEFICITS)					
Reserved for encumbrances	-	809	-	16	36
Unreserved, unrestricted	1,320	39,342	2,599	(29)	535
Total fund balances (deficits)	1,320	40,151	2,599	(13)	571
Total liabilities and fund balances (deficits)	\$ 8,536	\$ 152,991	\$ 12,267	\$ 171	\$ 600

State of Illinois
Department of Children and Family Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2005 (Expressed in Thousands)

	Special Revenue				Total
	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Family Reunification Fund 1226	
ASSETS					
Cash equity with State Treasurer	\$ -	\$ -	\$ -	\$ -	\$ 17,621
Cash and cash equivalents	1	91	14	-	189
Due from other government - federal	-	-	-	-	156,796
Other receivables, net	-	-	-	-	44
Due from Department funds	-	-	-	-	-
Due from other State funds	-	-	-	-	21
Total assets	\$ 1	\$ 91	\$ 14	\$ -	\$ 174,671
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 42,229
Intergovernmental payables	-	-	-	-	865
Due to other State fiduciary funds	-	-	-	-	33
Due to other Department funds	-	-	2	-	2
Due to other State funds	-	-	-	-	1,502
Due to State of Illinois component units	-	-	-	-	1,272
Unavailable revenue	-	-	-	-	83,858
Deferred revenue	-	-	-	-	178
Total liabilities	-	-	2	-	129,939
FUND BALANCES (DEFICITS)					
Reserved for encumbrances	-	-	-	-	861
Unreserved, unrestricted	1	91	12	-	43,871
Total fund balances (deficits)	1	91	12	-	44,732
Total liabilities and fund balances (deficits)	\$ 1	\$ 91	\$ 14	\$ -	\$ 174,671

State of Illinois
Department of Children and Family Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-major Governmental Funds

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Special Revenue				
	DCFS Training Fund 0094	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
REVENUES					
Federal government	\$ 9,267	\$ 456,192	\$ 15,146	\$ -	\$ -
Investment income	-	-	-	-	11
Other charges for services	-	1,991	-	-	-
Other operating grants	-	-	-	123	-
Other	-	(46)	-	-	-
Total revenues	9,267	458,137	15,146	123	11
EXPENDITURES					
Health and social services	12,120	456,150	14,335	202	217
Debt service - principal	-	-	-	-	-
Capital outlays	-	-	-	-	-
Total expenditures	12,120	456,150	14,335	202	217
Excess (deficiency) of revenues over (under) expenditures	(2,853)	1,987	811	(79)	(206)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers-in	-	-	-	-	230
Transfers-out	(1,089)	(13,004)	-	-	-
Net other sources (uses) of financial resources	(1,089)	(13,004)	-	-	230
Net change in fund balances	(3,942)	(11,017)	811	(79)	24
Fund balances (deficits), July 1, 2004	5,262	51,168	1,788	66	547
FUND BALANCES (DEFICITS), JUNE 30, 2005	\$ 1,320	\$ 40,151	\$ 2,599	\$ (13)	\$ 571

State of Illinois
Department of Children and Family Services
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Non-major Governmental Funds

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Special Revenue					Total
	Ball Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Family Reunification Fund 1226		
REVENUES						
Federal government	-	-	-	-	-	480,605
Investment income	-	-	-	-	-	11
Other charges for services	-	-	-	-	-	1,991
Other operating grants	-	-	-	-	-	123
Other	-	14	76	-	-	44
Total revenues	-	14	76	-	-	482,774
EXPENDITURES						
Health and social services	-	9	69	-	3	483,105
Debt service - principal	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
Total expenditures	-	9	69	-	3	483,105
Excess (deficiency) of revenues over (under) expenditures	-	5	7	-	(3)	(331)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Transfers-in	-	-	-	-	-	230
Transfers-out	-	-	-	-	-	(14,093)
Net other sources (uses) of financial resources	-	-	-	-	-	(13,863)
Net change in fund balances	-	5	7	-	(3)	(14,194)
Fund balances (deficits), July 1, 2004	1	86	5	-	3	58,926
FUND BALANCES (DEFICITS), JUNE 30, 2005	\$ 1	\$ 91	\$ 12	\$ -	\$ -	\$ 44,732

State of Illinois

Department of Children and Family Services

**Combining Statement of Fiduciary Net Assets -
Private Purpose Trust Funds**

June 30, 2005 (Expressed in Thousands)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
ASSETS			
Cash and cash equivalents	\$ 8	\$ 13	\$ 21
Investments	323	-	323
Total assets	331	13	344
NET ASSETS			
Held in trust for:			
Individuals, organizations, and other governments	331	13	344
Total net assets	\$ 331	\$ 13	\$ 344

State of Illinois

Department of Children and Family Services

**Combining Statement of Changes in Fiduciary Net Assets -
Private Purpose Trust Funds**

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
Additions:			
Investment earnings:			
Interest, dividends and other investment income	\$ 18	\$ -	\$ 18
Deductions:			
General and administration	3	-	3
Change in net assets	15	-	15
Net assets, July 1, 2004	316	13	329
Net assets, June 30, 2005	\$ 331	\$ 13	\$ 344

State of Illinois

Department of Children and Family Services

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Children's Trust Fund (1122)			
	Balance			Balance
	July 1, 2004	Additions	Deductions	June 30, 2005
ASSETS				
Cash equity with State Treasurer	\$ -	\$ 116	\$ -	\$ 116
Cash and cash equivalents	2,944	17,493	17,432	3,005
Due from other government - federal	322	250	322	250
Total assets	\$ 3,266	\$ 17,859	\$ 17,754	\$ 3,371
LIABILITIES				
Due to other government - federal	\$ 20	\$ 55	\$ 20	\$ 55
Amounts held on behalf of State Wards	3,246	3,316	3,246	3,316
Total liabilities	\$ 3,266	\$ 3,371	\$ 3,266	\$ 3,371